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SUBJECT: ENERGY, EXTRACTIVE INDUSTRIES INVESTMENT INCREASING

¶1. (U) Summary: The GRM recently hosted its first international conference on extractive industries and the energy sector, with representatives of more than 100 multinational companies in attendance. Mozambican ministers highlighted opportunities in energy generation and transmission, petroleum, natural gas, coal, heavy sands and uranium. U.S. companies are already considering multi-billion dollar projects, led by Houston's Anadarko Energy and Ayr Logistics of Dallas. The high level of participation in the conference suggests that international business views Mozambique's possibilities in these sectors with increasing interest. Should just a few of the projects that the GRM highlighted at the conference come to fruition, there is real potential to transform Mozambique's economy, but only if the GRM practices responsible stewardship and honors its commitment to adhere to the tenets of the Extractive Industries Transparency Initiative. End Summary.

Hydroelectric Generation, Energy Transmission

¶2. (U) Inaugurating the conference, Energy Minister Salvador Namburete noted that in 2007, the GRM acquired an 85% ownership in the Cahora Bassa Hydroelectric company (HCB) from the Portuguese government. He said the the GRM is actively seeking investors to build a northern powerhouse at the dam--the 2250 mW southern bank powerhouse is currently in operation--and to construct a second dam lower down the Zambezi River at Mapanda N'cua. Namburete pointed to the increasing regional demand for power, especially in South Africa, and suggested that Cahora Bassa has the potential to supply energy to a third of Africa. Namburete also highlighted the GRM's plan to modernize the national electricity grid in 2009 and 2010 as an opportunity for investors.

Petroleum

¶3. (U) Natural Resources Minister Esperanca Bias next told participants that the GRM anticipates ten companies involved in oil exploration in Mozambique to invest approximately USD 284 million in 2008 alone. She highlighted Houston-based Anadarko as one of the shining examples, and mentioned its plans to invest over a billion dollars in the next five years in the Rovuma Basin, which company officials told Emboffs is similar to the geological make-up of the oil fields in Nigeria. Rafique Yusob, director of the Mozambican Center for the Promotion of Investment (CPI) also said in his presentation that with the significant international focus on Mozambique's potential oil reserves, the Institute of National Petroleum (INP) launched a 'Third Licensing Round' on December 6, 2007 focused on the Mozambique Basin, that

includes both onshore and offshore blocks. The round would close on June 1, 2008, having allowed companies 6 months to make technical evaluations of the blocks and formulate applications. Namburete also pointed to a newly-signed agreement for USD 5.5 billion with Texas-based Ayr Logistics for an oil refinery in Nacala that would include a power generation facility (septel).

Natural Gas

14. (SBU) Minister Bias stated that Mozambique has the geological potential for the discovery of new gas fields, even though natural gas is already the most advanced of all Mozambique's natural resource sectors. She said Sasol Petroleum International is now the biggest natural resources producer in Mozambique, and noting that in March 2004 Sasol made its first sales of natural gas from the Pande and Temane oil fields in southern Mozambique, of which Sasol holds a 70 percent share. She also recalled that this followed the November 2003 completion of a central processing facility in Inhambane province and a gas pipeline to South Africa finished three months later. (Note: Sasol representatives told Econoff that in July of this year the company plans to start drilling two or three wells in deep waters located in Sofala and Inhambane province for surveying and prospecting new natural gas reserves. End note.) Bias went on to say the GRM plans to expand the production capacity of gas by 50 percent from 2010 in the Pande and Temane fields, in the province of Inhambane. This increase is in response to growing demand in both Mozambique and neighboring South Africa.

Coal

15. (SBU) Mozambique's coal deposits have captured the attention of many international companies. Bias said that Central African Mining and Exploration (Camec) made an important coal discovery in Tete province, and could contain 868 million tons of processable coal. Furthermore, she indicated that officials from Coal India would visit Mozambique in late May to examine a coking-coal mine the company plans to acquire along with the Steel Authority of India and three other government-run companies. Brazil's Companhia Vale do Rio Doce (CVRD) has begun extracting coal in the long-dormant Moatize coal mine, also in Tete Province. (Note: CVRD owns 95% of the Moatize concession, with the Connecticut-based American Metals and Coal International owning the other 5%. End Note.) Also, Bias said Australia's Riverdale Mining plans to build a USD 5 billion, 2,000 megawatt coal-fired plant in Tete province, where it is due to start producing coal in 2010. This project has the potential to produce 500 megawatts of electricity in 2012 and would reach full capacity in 2015. In addition, executives from Missouri-based Peabody Energy have told Econoff they are looking at partnerships with CVRD for coal extraction, and representatives from Virginia-based AES have told Econoff that the company is the preferred bidder for a coal-fired generation plant, also in Tete.

Other Minerals

16. (SBU) CPI's Yusob emphasized that Mozambique has commercially important deposits of iron ore, titanium ore, apatite, graphite, marble, bentonite, bauxite, kaolin, copper, gold, tantalum, and potentially uranium. Two of the largest investment projects in development are mining and processing ventures of "heavy sands" deposits by Ireland's Kenmare Resources, Ireland) and Australia's BHP Billiton. These projects together will require more than USD 1 billion in investment in the next five years. In addition, Canada's Pacific Wildcat Resources announced in April that it has acquired rights to begin tantalum production and exploration

in north-eastern Mozambique. Furthermore, another Canadian company, TEAL Exploration & Mining Incorporated, has announced that the GRM has granted it permission to prospect for uranium in Cabo Delgado, Alto Ligonha, Lupata, and Tete. Canadian Embassy officials have told Emboffs that TEAL believes that Mozambique has major uranium potential.

Comment: Prudent Stewardship Bodes Transformation

¶7. (U) The GRM's first energy and extractive industry conference in Mozambique was extremely well-attended, including by important multinational players. The high-level of participation suggests that the international business community is eyeing Mozambique's potential in these sectors with increasing seriousness. If the GRM continues to strengthen its 'doing business' environment to attract new investment, and if even just a few of the multibillion dollar projects that seem to be in the offing actually come to fruition, Mozambique's economy could be transformed--but only if the GRM practices responsible stewardship of the windfall.

In this light, continued international efforts to keep the GRM focused on transparency and anti-corruption measures will be helpful, as will the GRM's commitment to adhere to the tenets of the Extractive Industries Transparency Initiative (EITI).

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